

Message Text

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ACTION IO-13

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

H-02 IGA-02 FS-01 ABF-01 AGR-05 AGRE-00 INT-05

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 A-01 FBO-02 DODE-00 /115 W

----- 075725

R 300940Z SEP 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2220

INFO USMISSION GENEVA

AMEMBASSY MOSCOW

C O N F I D E N T I A L BONN 16517

NOFORN

E.O. 11652: XGDS-1

TAGS: UNDP, EAID

SUBJ: UNDP: U.S. PROPOSAL TO BUY ACCUMULATED NON-
CONVERTIBLE CURRENCIES

REF: (A) STATE 236335; (B) BONN 122231

1. US PROPOSAL HAD BEEN WARMLY RECEIVED BY FRG WHEN IT WAS FIRST TABLED IN JUNE, AND FRG HAD QUICKLY INITIATED A STUDY TO SEE WHETHER IT COULD ALSO PURCHASE UNDP'S NON-CONVERTIBLE HOLDINGS, (REF B). MFA AND ECONCOOPMIN OFFICIALS HAVE INFORMED EMBASSY THAT THIS STUDY BOGGED DOWN BECAUSE NO PRACTICAL WAYS WERE FOUND TO PURCHASE SIZEABLE QUANTITIES OF RUBLES OR OTHER NON-CONVERTIBLE CURRENCIES. LOCAL COSTS OF FRG EMBASSY IN MOSCOW ARE CLAIMED TO BE ONLY \$360,000 PER YEAR, AND THOSE OF FRG EMBASSIES IN OTHER EAST EUROPEAN EMBASSIES ARE MUCH LOWER. BEGIN NOFORN:
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ASKING THAT THIS BE KEPT CONFIDENTIAL, MFA SOURCE SAID

THAT MOST OF THE FRG'S OFFICIAL REQUIREMENTS FOR EAST EUROPEAN CURRENCIES ARE PURCHASED FROM REFUGEES. THE SOVIET UNION IS MOST LIKELY AWARE OF THIS PRACTICE, BUT HAS NOT MADE ANY COMPLAINTS TO THE FRG. OUR SOURCE CAUTIONED THAT ANY REFERENCE TO THESE PURCHASES IN UNDP OR OTHER FORA MIGHT WELL IMPEL SOVIETS TO ENFORCE EVEN TIGHTER EXCHANGE CONTROLS. ALTHOUGH THERE HAVE BEEN SOME PRESS REPORTS OF PURCHASES BY OFFICIAL FRG AGENCIES OF CURRENCIES CARRIED IN BY REFUGEES, THE FACT THAT THESE PURCHASES ARE USED TO PAY OFFICIAL FRG COSTS IN EASTERN EUROPE SEEMS TO BE CLOSELY HELD. EVEN THE ECONCOOPMIN OFFICIALS ENGAGED IN REVIEW CONCERNING UNDP HOLDINGS DO NOT APPEAR TO BE AWARE OF THESE TRANSACTIONS. END NOFORN. OTHER POSSIBILITIES FOR USE OF NON-CONVERTIBLE CURRENCIES WERE ALSO EXAMINED. A NEW FRG EMBASSY IS UNDER CONSTRUCTION IN MOSCOW, BUT ALL LOCAL COSTS ARE BORNE BY SOVIET UNION UNDER A BILATERAL BARTER ARRANGEMENT IN WHICH FRG FOR ITS PART IS PAYING ALL LOCAL COSTS FOR CONSTRUCTION OF NEW SOVIET EMBASSY IN BONN. PURCHASE OF NON-CONVERTIBLE CURRENCIES FOR TOURISM EXPENDITURES WAS REJECTED ON GROUNDS THAT SUCH PRACTICE MIGHT IMPAIR THE FRG'S EASTERN RELATIONS.

2. EMBOFF INDICATED THAT WE ARE ASKING FOR INFORMAL COMMITMENTS TO PURCHASE SUBSTANTIAL QUANTITIES OF INCONVERTIBLE CURRENCIES, BUT ALSO OBSERVED THAT SOVIETS SEEM TO BE MORE LIKELY TO EASE THEIR EXCHANGE CONTROLS OR INCREASE 25 PERCENT QUOTA FOR CONTRIBUTIONS WHICH CAN BE CONVERTED, RATHER THAN ACCEPT US PROPOSAL. HE SUGGESTED THAT AN AGREEMENT IN PRINCIPLE TO JOIN US WOULD THUS BE HELPFUL ON TACTICAL GROUNDS EVEN IF FRG COULD NOT PURCHASE SUBSTANTIAL AMOUNTS OF UNDP HOLDINGS. MFA SOURCE VOLUNTEERED TO REVIEW POSSIBILITY OF AGREEING TO PURCHASE A MORE OR LESS SYMBOLICAL LEVEL OF INCONVERTIBLE CURRENCIES.

3. COMMENT: WITHIN CONSTRAINTS IMPOSED BY ITS EASTERN POLICY, FRG WOULD LIKE TO SUPPORT US INITIATIVE, BUT HAS NOT FOUND ANY AREAS IN WHICH SUBSTANTIAL PURCHASES

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COULD BE MADE. ANY SPECIFIC US SUGGESTIONS WOULD BE WELCOME. WHILE WE FIND IT DIFFICULT TO BELIEVE THAT THE FRG CAN COVER ITS LOCAL CURRENCY COSTS IN EASTERN EUROPE SOLELY FROM REFUGEE SOURCES, IT WOULD--AND APPARENTLY DOES--ALSO USE THE FREE MARKET IN WESTERN EUROPE AS A SOURCE FOR EMBASSY FUNDS. THE FAR MORE FAVORABLE EXCHANGE RATES FOR THESE FREE MARKET TRANSACTIONS MAY WELL BE PRIMARY REASON FOR FRG

RELUCTANCE TO PURCHASE UNDP HOLDINGS.
HILLENBRAND

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